

Defense Contract Audit Agency

DCAA Support to Our Acquisition Customers

**DCMC ACO/TCO Conference
August 31, 1999**

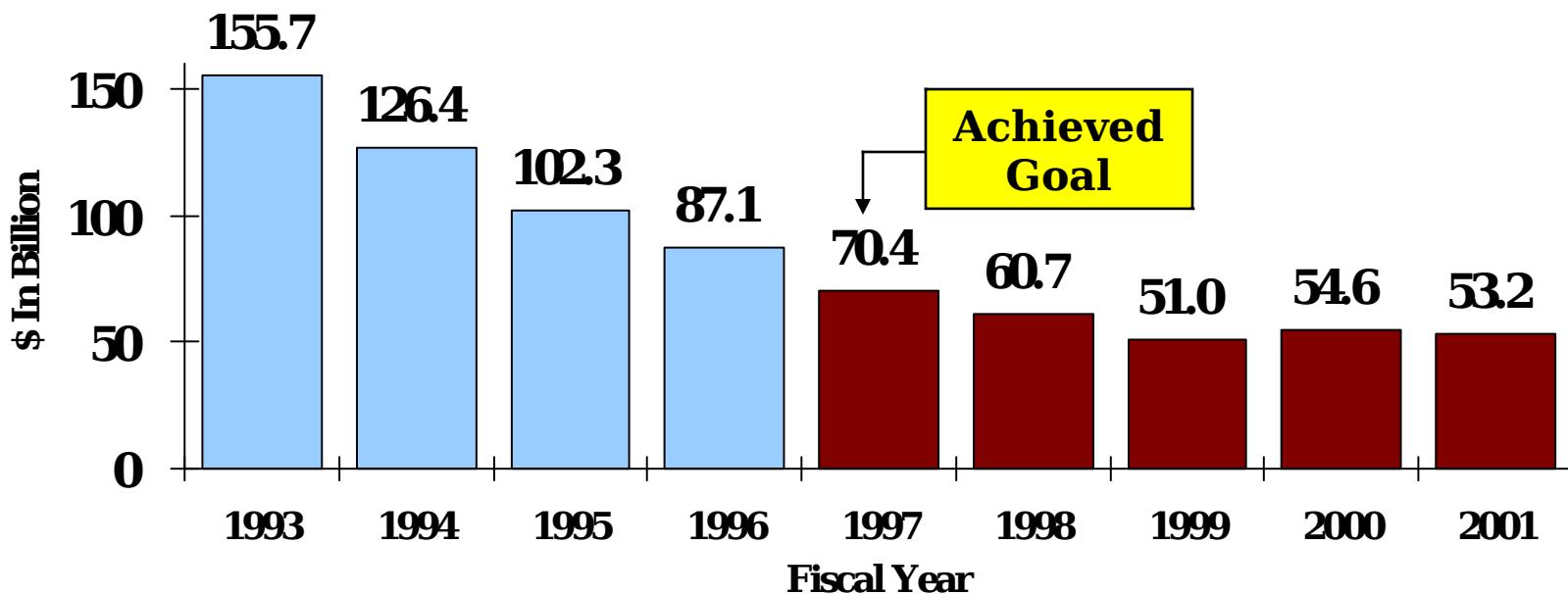
William H. Reed
Director

Outline

- DCAA Support of DCMC Goals for Timely Final Indirect Cost Rate Settlements and Contract Closeouts
- Paperless Contract Audit Process - Electronic Transmissions of Requests, Submissions, and Reports
- Contractor Direct Billing Update
- GAO CAS Board Review and Legislation
- DCAA Support of Acquisition Reform
- Price-Based Acquisition

Eliminating the Audit Backlog

- Incurred Cost Effort Focused on Eliminating the Backlog
 - Customer Priority
 - Congressional Mandate



DCAA Concurrent Auditing Initiative

- Perform Incurred Cost Audit Steps Prior to Receipt of the Contractor's Proposal
- Issue Audit Report 2-4 Months After Receiving the Contractor's Submission
- Criteria -
 - Contractors With Good Internal Controls
 - Contractor Rates Are Current
- Policy Coordinated with DCMC

Final Indirect Cost Rate Settlement

ACO-Determined to Audit-Determined

- DCAA Coordinated with DCMC on One Book, Chapter 6.7 Change
- ACO May Elect to Switch From ACO-determined to Audit-determined Rate Settlement Process When:
 - Questioned Costs Will Not Exceed \$300,000
 - Risks Indicate Rates Can Be Settled With Little Difficulty
 - Both ACO and Auditor Agree To Change
- Benefits of Switching--Saves Auditor, ACO, And Contractor Resources

No. of Audit Reports on Final Indirect Cost Rate Proposals Subject to CO Determination with Rates

Not Settled

DCMC Administered Contracts

	4/30/98	6/30/99
Total Reports with Rates Not Settled	756	625
No. of Reports, CQ <or= \$300,000	400	278
% of Reports, CQ <or= \$300,000	53%	44%

Overhead Status at Contractors with DCMC Administered Contracts

No. of Audits in Process FY 1999, 3rd Quarter

Submission On-Hand	Major or Corporate	Non Major	Total
1 Year or Less	111	604	715
1 - 2 Years	8	454	462
Over 2 Years	8	227	235
Total	127	1,285	1,412

Overhead Status at Contractors with DCMC Administered Contracts

No. of

Overdue Incurred Cost Submissions FY 1999, 3rd Quarter

Submission Overdue	Major or Corporate	Non Major	Total
1 Year or Less	185	2,128	2,313
1 - 2 Years	10	291	301
Over 2 Years	3	265	268
Total	198	2,684	2,882

Streamlining the Contract Closeout Process

- Two Streamlining Methods:
 - **DCAA Contract Closeout Pilot Project Recommendation**--Short-Term Initiative To Reduce Audit Hours. Reduces the Number of Contract Audit Closing Statements to One.
 - **DoD Contract Closeout Working Integrated Process Team (CCWIPT) Study Recommendations**--Long-Term Paperless Initiative. Eliminates the Need for a Final Contract Audit Closing Statement Report.
- Both Methods Rely on the Cumulative Allowable Cost Worksheet (or equivalent)

Streamlining the Contract Closeout Process

Single Contract Audit Closing Statement Process

- Prepare One Contract Audit Closing Statement For All Completed Contracts As Part of the Incurred Cost Audit
- Use Data From Cumulative Allowable Cost Worksheets To Prepare the Closing Statements
- Issue Contract Audit Closing Statement With the Incurred Cost Audit Report
- Significant Reduction in Direct Audit Hours (Less than 1/2 hour per contract compared to 2-4 hours)

Streamlining the Contract Closeout Process

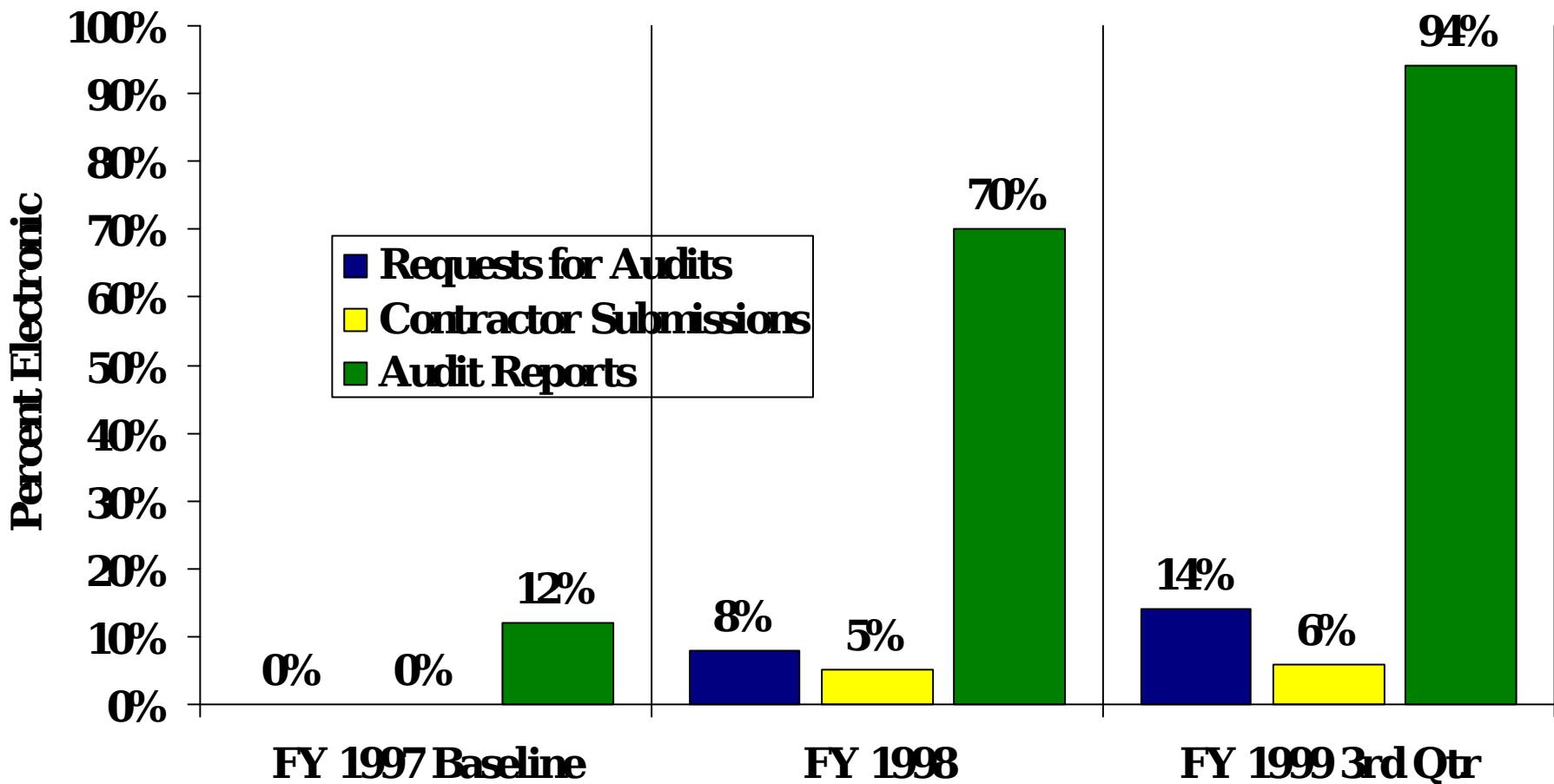
DRID #32 (April 98)

CCWIPT

Recommendation (April 99)

- **Contract Closeout Working Integrated Process Team (CCWIPT) Report Recommendation--Requirement for Final Voucher Audit Satisfied If:**
 - Adequate Billing System and Billing Is Direct
 - Contractor Electronically Generates Data Necessary for DCAA to Complete the Cumulative Allowable Cost Worksheet (CACWS)
 - DCAA Copied on All Vouchers
 - If Deficiencies Disclosed During Billing System Review, Procedure Reverts Back to Audits of All Vouchers. Contractor Must Submit Improvement Plan .
- **Establishing the Baseline for Status Reporting--DCAA Is Collecting the Following Data:**
 - Contractors That Currently Meet the CCWIPT Criteria
 - Contractors That Modify Their System to Accommodate CACWS and Date of Implementation

Electronic Audit Report Transmissions Agency-Wide



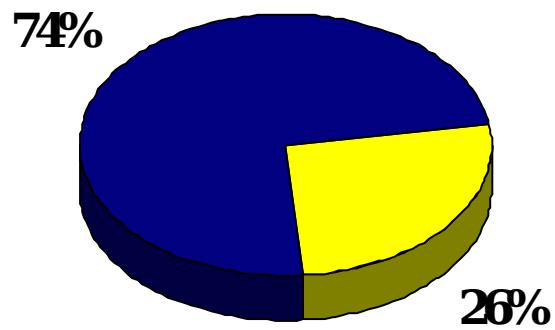
Contractor Direct Billing

- Reduce Payment Cycle Time and Processing Costs While Providing Reasonable Assurance That Amounts Claimed Are Correct
- Focus on Adequacy of Contractors' Billing Systems Rather Than on Each Individual Voucher
 - Periodic Reviews of Billing Systems
 - Reviews of Paid Vouchers on a Sampling Basis
 - Review First and Final Vouchers on Each Contract
- Facilitate Transmission of Contractor Payments Using Electronic Data Interchange (EDI) or Web-based Invoicing

FY 1999 Major Contractors Currently Submitting Public Vouchers (Total of 136 Contractors)

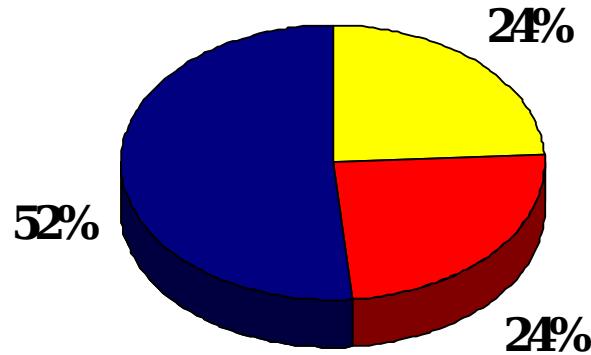
Status as of June 1999

Eligible/Ineligible Contractors



- **104 Eligible Contractors**
- **37 Ineligible Contractors**

Reasons for Ineligibility

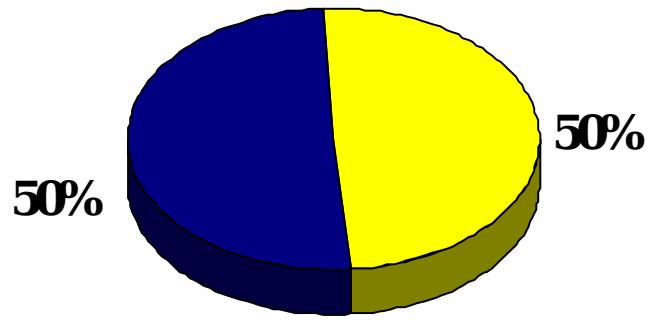


- **19 Contractors - Billing System Deficiencies**
- **9 Contractors - Late Incurred Cost Submissions**
- **9 Contractors - Both**

FY 1999 Non Major Contractors Currently Submitting Public Vouchers (Total of 2,226 Contractors)

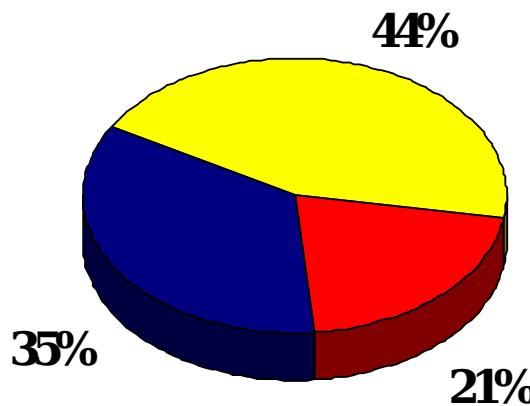
Status as of June 1999

Eligible/Ineligible Contractors



- **1124 Eligible Contractors**
- **1102 Ineligible Contractors**

Reasons for Ineligibility



- **383 Contractors - Billing System Deficiencies**
- **486 Contractors - Late Incurred Cost Submissions**
- **233 Contractors - Both**

Government/Industry CAS Board Review Panel Scope Per FY 1997 DoD Authorization Act

- Viability of CAS Board's Original Mission After Major Statute Changes
- Extent to Which a Board Is Advisable to Regulate Contractor Practices
- Extent to Which Cost Allocability Functions Should Be Combined With Cost Allowability Functions
- Board Composition, Membership, Terms, and Structure to Ensure Independence and Balance
- Provision of Adequate Staff and Resources

CAS Panel Findings

This group, the CAS Board Review Panel, believes that there is a continuing need for the CAS and the CAS Board.

Cost-based contracts continue to represent the majority of all federal contracting dollars and the original purposes of the CAS-- principally, the need for uniformity and consistency to protect the

CAS Panel's Recommendations-- April 1999 DoD Legislative Proposal--June 1999

- ① Double the Threshold for Full CAS Coverage
- Reintroduce the Trigger Contract
- Exempt Firm Fixed Price Contracts from CAS Coverage Unless Certified Cost or Pricing Data Are Obtained
- Authorize Contracting Agencies To Waive CAS
- Remove the CAS Board from OFPP

Not
Included
in DoD
Legislative
Proposal

CAS Legislation--FY 2000 Authorization Bill August 1999

- Included First Two CAS Panel Recommendations (threshold & trigger contract)
- Modified CAS Panel Recommendations 3 and 4:
 - Exempt Firm Fixed Price Contracts from CAS Coverage Which Are Based on Adequate Price Competition and Where No Certified Cost or Pricing Data Is Obtained
 - Authorize Contracting Agencies To Waive CAS Under Following Circumstances:
 - Contracts Less Than \$15 Million with Contractors Selling Primarily Commercial Items and Otherwise Not Subject To CAS
 - Exceptional Circumstances --Can't Obtain Products or Service any Other Way
- Did Not Include CAS Panel Recommendation to Remove the CAS Board from OFPP
- Added--Exempt Contracts Under FEHB Program for 1 Year

\$7.5M Trigger/\$50M Full Threshold Impact on Current Full CAS Segments

<u>Segments</u>	<u>CAS Awards</u>		
Current Full Coverage	280	\$69.8B	
<u>\$7.5M/\$50M</u>			
No Coverage	18	\$.6B	
Modified	73	\$ 2.7B	
Full	189	\$66.5B	
<u>Percent</u>			
No coverage	6%	1%	
Modified	26%	4%	
Full	68%	95%	

Impact of \$7.5M Trigger Current Modified CAS Segments

<u>Segments</u>	<u>CAS Awards</u>	
Current	308	\$2.2B

\$7.5M Trigger

Modified 54 \$.9B

No coverage 254 \$1.3B

% Change to

No Coverage 82% 59%

Supplemental Notice of Proposed Rulemaking-II (SNPRM-II)

20 August 1999

- Key Features
 - Definition of Accounting Change
 - Provides Criteria for Desirable Changes
 - Provides Exemption Criteria for Changes Associated with Restructuring Activities
 - Cost Impact Procedure
- Status
 - 60 Day Comment Period
 - Open Public Meeting After Comment Period

Cost Accounting Standards Board (CASB) Waivers

- Since 1991--CASB Has Granted 15 Individual CAS Waivers
- June 15, 1998--CASB Granted DoD Limited CAS Waiver Authority for a 2 Year Period When:
 - Contract is FFP Contract Based on Uncertified Cost Information;
 - Contract Does not Provide for Progress Payments Based on Costs Incurred; and
 - Contractor Has No Previous CAS-Covered Contracts (Subsequent Award of CAS-Covered Contract Terminates Waivers for All Subsequently Awarded Negotiated FFP Contracts That Meet CAS Thresholds)

DCAA Audit Support for Acquisition Reform Initiatives

9/1/98 Memo to Auditors

- DCAA Strongly Supports Acquisition Reform Initiatives to Advance Civil/Military Integration and to Encourage New Contractor Entrants
- FASA and Clinger-Cohen Act Established Many Far-Reaching Changes
- Misconception--Regulatory Requirements Are a Major Obstacle
- Guiding Principle of Acquisition Reform - Contracting Officer Flexibility

Auditors Should Be Proactive and Advise COs To Make Optimum Use of New Regulations

Price-Based Acquisition

Why Expand?

Means To Achieve Three Desirable Outcomes:

- Increase DoD's Access To Leading Edge Technology Available Only in the Commercial Sector
- Reduce Government Infrastructure
- Get Better Prices for What We Buy

DoD Vs. Commercial Industry Purchasing

- At the Prime Level for Major Weapon Systems Significant Differences Between DoD and Commercial Industry:
 - ▶ DoD - Lack of Competition
 - DoD Is Dependent on Only A Handful of Large Suppliers for Major Weapon Systems
 - Supplier is Often Sole Source
 - DoD - Items Are Highly Complex, Low Volume, and Military Unique
- Commercial Companies Do Not Purchase Research and Development (It's Funded In-House)
- Greatest Opportunity for Price-Based Acquisition is at the Subcontract Level Where It's More Likely That the Market Forces "Regulate"

What Should Be the Key Defining Attributes of Price Based Acquisition?

- Low Technical Risk
- Competitive Environment
- No Actual or Estimated Cost Data
- Firm-Fixed Price